

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF RATES OF	)	
BIG SANDY RURAL ELECTRIC	)	CASE NO. 8021
COOPERATIVE CORPORATION	)	

O R D E R

On October 29, 1980, Big Sandy Rural Electric Cooperative Corporation (hereinafter Applicant or Big Sandy) filed an application with this Commission requesting authority to increase its revenue by approximately \$332,645 on an annual basis, an increase of 6.66%. Applicant stated in the application that the increased revenue was essential to maintain Applicant's financial stability.

On November 12, 1980, the Commission entered an Order wherein the matter was scheduled for hearing January 28, 1981. Said Order directed Applicant to provide statutory notice to its consumers of the proposed rate increase and the scheduled hearing. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky.

On November 3, 1980, the Consumer Intervention Division in the Office of the Attorney General filed a motion to intervene in this proceeding. This was the only party of interest formally intervening herein.

### COMMENTARY

Big Sandy Rural Electric Cooperative Corporation is a consumer-owned electric distribution cooperative serving approximately 8,790 consumer members in the Kentucky counties of Floyd, Johnson, Knott, Lawrence, and Martin. Applicant purchases all of its power from East Kentucky Power Cooperative.

### TEST YEAR

Applicant proposed and the Commission has adopted the twelve-month period ending July 31, 1980, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given due consideration to known and measurable changes where appropriate.

### VALUATION

#### Net Investment

The Commission finds from the evidence of record that Applicant's net investment rate base at July 31, 1980, is as follows:

Utility Plant in Service	\$ 8,153,192
Construction Work in Progress	72,611
Total Utility Plant	<u>\$ 8,225,803</u>

#### Add:

Materials and Supplies	\$ 139,589
Prepayments	43,159
Working Capital	108,960
Sub-total	<u>\$ 291,708</u>

#### Deduct:

Depreciation Reserve	\$ 2,582,562
Customer Advances for Construction	1,002
Sub-total	<u>\$ 2,583,564</u>

Net Investment	<u><u>\$ 5,933,947</u></u>
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In calculating the net investment rate base, the Commission has adjusted Materials and Supplies, as well as Prepayments, to utilize the thirteen-month average. The Commission has also adjusted Applicant's rate base to reflect the exclusion of Customer Advances for Construction. These advances represent contributed capital, and as such, Applicant should not be allowed to earn a return on them. Applicant adjusted the Depreciation Reserve to reflect the pro forma depreciation expense adjustment, and likewise, adjusted working capital to reflect the proposed adjustments to operation and maintenance expenses. The Commission is of the opinion that these adjustments are appropriate inasmuch as they provide greater recognition of the changing conditions in which a utility operates. However, the Commission has reduced the Depreciation Reserve to reflect the revised pro forma adjustment to depreciation expense, and likewise, has reduced the provision for working capital to reflect the revised pro forma adjustments to operation and maintenance expenses.

#### Capital Structure

The Commission finds from the evidence of record that Applicant's capital structure for rate-making purposes is as follows:

Equity	\$2,085,693
Long Term Debt	<u>\$4,935,971</u>
Total Capitalization	<u>\$7,021,664</u>

The Commission has adjusted the proposed capital structure to exclude the projected equity based on the rate increase requested herein; and to exclude the accumulated equity of \$193,375

provided in the form of capital credits by East Kentucky Power Cooperative.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase requested herein.

#### REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses as reflected on page 3 of the rate case exhibits attached to the application. The adjustments were proposed to normalize increases in revenues, purchased power costs, salaries and wages, property taxes, depreciation, and interest on long-term debt. The Commission finds that the adjustments proposed by Applicant are generally acceptable for rate-making purposes with the following modifications:

1. The Commission has increased Applicant's normalized operating revenues by \$967,136 to reflect the rates granted Applicant in Case No. 8005 to flow-through the increase in fuel cost from East Kentucky Power Cooperative.

2. Applicant's normalized power cost has been adjusted by \$970,371 to reflect the increased wholesale rates granted to East Kentucky in Case No. 7981.

3. Applicant proposed to include, as a portion of its pro forma operating expenses, depreciation charges of \$1,905 on communications equipment. This equipment was fully depreciated prior to Applicant's test year; however, Applicant proposed to transfer seventy percent of the accumulated provision for depreciation on communications equipment to the depreciation reserve

for distribution plant and then depreciate communications equipment a second time. Based on the evidence of record, the Commission at this time cannot render an opinion on this accounting practice; however, for rate-making purposes, the Commission is of the opinion and finds that Applicant has not adequately supported the legitimacy of this portion of its depreciation expense. Therefore, Applicant's adjustment to depreciation expense has been reduced by \$1,905.

4. The Commission has made an adjustment of \$566 to exclude a portion of Applicant's advertising expense actually incurred during the test period. The advertising expense disallowed for rate-making purposes herein has been classified as institutional advertising as defined in 807 KAR 5:016E.

5. Applicant's other income deductions have been adjusted by \$1,924 to exclude the cost of all charitable contributions and donations incurred during the test year. The Commission is of the opinion and finds that these expenditures produce little or no benefit to the Applicant's ratepayers and therefore, should not be included for rate-making purposes.

The effect on Net Income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$4,603,053	\$1,284,893	\$5,887,946
Operating Expenses	4,391,972	1,346,707	5,738,679
Net Operating Income	\$ 211,081	\$ (61,814)	\$ 149,267
Interest on Long-Term Debt	194,444	16,533	210,977
Other Income &(Deductions)-Net	52,130	1,924	54,054
Net Income	<u>\$ 68,767</u>	<u>\$ (76,423)</u>	<u>\$ (7,656)</u>

#### RATE OF RETURN

The actual rate of return on Applicant's net investment, established herein for the test year, was 3.56%. After taking into consideration the pro forma adjustments, Applicant would realize a 2.52% rate of return. The Commission is of the opinion and finds that the revised rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis, Applicant should be allowed to increase its annual revenue by approximately \$271,377 which would result in a rate of return of 7.09% and a Times Interest Earned Ratio of 2.25. This additional revenue will provide net income of approximately \$263,721 which should be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt.

#### RATE DESIGN

Applicant proposed allocating the revenue increase to each customer rate class in the same proportion that each class is currently contributing to total revenues. Applicant proposed revising all tariffs except schedule YL-1, yard security light service, to change from a declining block rate structure to a flat rate structure and add a separate customer charge to each rate schedule. The Commission is of the opinion that Applicant's method of revenue allocation is equitable, and further, the Commission concurs with the proposed rate design as it is in accordance with the rate-making standards contained in the Public Utility Regulatory Policies Act of 1978 (PURPA).

Applicant requested a ten percent increase in existing demand charges in the instant case. This is in addition to a nineteen percent demand charge increase requested in Case No. 8005, Applicant's most recent pass-through of wholesale power cost increases from East Kentucky. The Commission found an energy adder charge to be the most equitable method of allocating the wholesale power cost increase and thereby disallowed the demand charge increase requested in Case No. 8005. Considering all these matters, the Commission is of the opinion and finds that a demand charge increase of approximately twenty-six percent is equitable in this instance. The rates set forth in Appendix "A" incorporate the Applicant's proposed revenue allocation method and rate design modifications and reflect the fuel clause roll-in approved in Case No. 8061.

#### SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges set out in Appendix "A," attached hereto and made a part hereof, will produce gross annual revenue in the amount of \$6,106,358, and are the fair, just, and reasonable rates for Applicant.

The Commission further finds that the rate increase proposed by the Applicant is unfair, unjust, and unreasonable in that it would produce revenue in excess of that deemed reasonable herein.

IT IS THEREFORE ORDERED, that the rates and charges set out in Appendix "A," attached hereto and made a part hereof, are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED, that the rate increase proposed by Big Sandy Rural Electric Cooperative Corporation is unfair, unjust, and unreasonable in that it would produce revenue in excess of that deemed reasonable herein and is hereby denied.

IT IS FURTHER ORDERED, that Big Sandy Rural Electric Cooperative Corporation shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 20th day of April, 1981.

PUBLIC SERVICE COMMISSION

Marlin W. Voh  
Chairman

Did not participate  
Vice Chairman

Don Hargan  
Commissioner

ATTEST:

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Secretary



APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC  
SERVICE COMMISSION IN CASE NO. 8021 DATED  
APRIL 20, 1981.

The following rates and charges are prescribed for the customers in the area served by Big Sandy Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

SCHEDULE A-1  
FARM AND HOME\*

Monthly Rate:

Customer charge per delivery point	\$ 5.00
Energy charge per KWH	.04655

Minimum Charges:

The minimum monthly charge under the above rate shall be \$5.00. For members requiring more than 5 KVA of transformer capacity, the minimum monthly charge shall be increased at the rate of 75 cents for each additional KVA fraction thereof required.

SCHEDULE A-2  
COMMERCIAL AND SMALL POWER\*

Monthly Rate:

Customer charge per delivery point	\$10.00
Energy charge per KWH	.04882

Minimum Charges:

The minimum monthly charge under the above rate shall be \$10.00 where 5 KVA or less of transformer capacity is required. For consumers requiring more than 5 KVA of transformer capacity the minimum monthly charge shall be increased at the rate of 75 cents for each additional KVA or fraction thereof required.

SCHEDULE LP  
LARGE POWER SERVICE\*

Monthly Rate:

Customer charge per delivery point	\$50.00
Energy charge per KWH	.03727
Demand charge per KW	3.70

SCHEDULE LPR  
LARGE POWER RATE\*

Monthly Rate:

Customer charge per delivery point	\$75.00
Energy charge per KWH	.03253
Demand charge per KW	3.70

SCHEDULE YL-1  
YARD SECURITY LIGHT SERVICE\*

Rates:

Flat rate per light per month as follows:

175 Watt	\$ 4.46 Per Month
400 Watt	6.75 Per Month
500 Watt	8.27 Per Month
1,500 Watt	17.54 Per Month

\*Fuel Adjustment Clause

All rates are applicable to the Fuel Adjustment Clause and may be increased or decreased by an amount per KWH equal to the fuel adjustment amount per KWH as billed by the Wholesale Power Supplier plus an allowance for line losses. The allowance for line losses will not exceed 10% and is based on a twelve month moving average of such losses. This Fuel Clause is subject to all other applicable provisions as set out in 807 KAR 5:056E.